MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019 / 2020

DAU 5024 – AUDITING 2

(For Diploma Students Only)

14 OCTOBER 2019
2.30 p.m – 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 7 pages with 5 Questions.
2. Answer **ALL** questions.
3. Please write your answers in the answer booklet provided.

QUESTION 1

Larva Company sells BPA-Free plastic bottles throughout Malaysia. The company is expanding its product to international market. The company has an effective internal control system over their sales cycle. This is one of the reasons that contributes to the company success.

The functions in the sales cycle of Larva Company is explained as below:

Ordering:

All customer's orders are placed with the sales team. The details of the orders are entered into the **Document A** by the sales assistant. The warehouse then checks that the goods availability in the warehouse and will not take the order that is over credit limit. The system generates two order confirmations, one which is sent to customer by text message confirming the goods ordered and likely dispatch date, and the other is retained on sales order file.

Credit Authorization:

Sales manager completes a credit application for all new customers in **Document B.** Next, an approved credit limit is entered onto the sales system by the credit controller. As for existing customers, sales manager completes an annual credit check, and the credit controller amends or approves existing credit limits for these customers. Approved customers are assigned with unique customer account number.

Shipping:

The warehouse receives the details of customers' order and based on that, a member of the warehouse team packs the goods ordered. A second member of the team double checks the goods packed. The goods are then shipped to the customers with **Document C** for the customer to sign as a proof of receipts of goods. The sales manager then follows up on any incomplete orders with the warehouse manager.

Billing:

Once the goods are shipped, the sales department begins the invoicing activity where **Document D** is sent to customers together with **Document E.** The sales details are recorded in **Document F** and posted to **Document G.** The delivery report is reviewed by

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the senior accountant on a fortnightly basis for any goods dispatch that have not been invoiced. The report is printed and signed as evidence of review. At the end of the month, the company sends **Document H** to customers.

Cash Receipt:

All cash receipts are counted by the office assistant, recorded by the cashier in **Document I.** Upon payment, customers will return back Document E together with payments for goods bought.

Recording transactions:

The customer's credit balances are reviewed by the senior accountant on a monthly basis. It is then reconciled on a monthly basis by the sales ledger manager and reviewed by the company accountant. The summary of balances unpaid according to certain period are recorded in **Document J.**

Required

Identify the names of documents A to J in the sales cycle of Larva Company and explain the use of each document.

(20 marks)

(Note: You may use the table format as presented below to write your answer)

Documents	**Name of Documents**	**Use of the documents**
Document A		
Document B		
Document C		

(Total: 20 marks)

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QUESTION 2

PART A

You are the audit senior in charge of the audit of internal control of purchasing cycle of Getta Distributors Company which is a large privately owned incorporated business. You have to brief your audit team members on the proper segregation of duties applied in the company purchasing cycle. Among the key segregation of duties are as below:

1. Purchasing function should be segregated from the requisitioning and receiving function.
2. The invoice processing function should be segregated from the account payable function.
3. The disbursement function should be segregated from the accounts payable functions.
4. The account payable function should be segregated from the general ledger function.

Required
For each of the key segregation of duties, explain the possible errors or fraud that may occur if the key segregation of duties is not in place. (8 marks)

Note: You may use the table format as presented below to write your answer)

Segregation of duties	Possible errors or fraud
1.	
2.	
3.	
4.	

PART B

An employee of Olivia Printing Company has been committing frauds for a number of years which have remained undetected. The case is presented as below:

Jim Smith, is responsible for checking deliveries of raw materials from suppliers. He will compare the quantity of goods received against the copy purchase orders prepared by the purchasing department.

Jim Smith has made an arrangement with Billy, the supplier's delivery driver, to accept delivering to Olivia Printing Company less than the agreed quantity. Jimmy Smith will sign a receipt for the quantity of goods ordered on the delivery order and write in the receiving report. Billy can then sell the balance of goods and share the proceed with Jim Smith.

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Required

a) Identify and explain **TWO (2)** internal controls Olivia Printing Company can apply to minimize the possibility of fraud taking place.

(6 marks)

b) Assume that you are planning to conduct substantive test of transactions. List the documents you need to check the completeness of purchasing transaction.

(6 marks)

(Total: 20 marks)

QUESTION 3

In February 2019, Northern Union Company has acquired new photocopy machine for the use of printing and copying document in its company. The newly acquired machine is expected to have useful life of 15 years.

Required

a) Do you think that the new machine can be considered as plant, property and equipment? (Yes/No). Provide reasons for your answer.

(4 marks)

b) Explain the audit procedure an auditor should conduct in order to perform substantive test of account balance for the following assertions related to the new photocopy machine.
   1) Completeness
   2) Existence
   3) Cut off
   4) Classification
   5) Ownership
   6) Accuracy
   7) Valuation
   8) Revaluation

Continued...

Note: You may use the table format as presented below to write your answer)

Assertions	Audit Procedure to test of account balance
1) Completeness	
2) Existence	
3)	

(16 marks)
(Total: 20 marks)

QUESTION 4

PART A

You have been asked to carry out the audit of Genius University Nursery which looks after the young children of staff and students.

The nursery rents its premises from the university, and the university send monthly invoices for the rent, electricity and water bill. Fixed assets in the nursery mainly comprise of equipment for used the children and are depreciated at 20% per annum on cost. However, there is no fixed asset register to maintain details of fixed assets owned by the nursery.

The treasurer records all accounting transactions in a cash book and keeps documents relating to receipts and payments. At the same time, the treasurers prepare income and expenditure account for the Genius University Nursery.

As an auditor, you perform different types of audit procedures regarding the client's operation as you believe many users rely more on the Statement of Profit or Loss than the Statement of Financial Position.

Required

Explain **TWO (2)** important concepts in conducting audit test to the income and expenditure account.

(4 marks)

PART B

Your audit firm is the external auditor for Standstill Company, which manufactures furniture and fittings for office use. The company has a head office, central warehouse and a large production plant which produced the furniture and fittings.

In order for you to audit the manufacturing equipment and related accounts, you have separated your audit tests into few categories for example analytical procedures and verifications of current year acquisitions and disposals of manufacturing equipment.

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Required

a) Define analytical procedures.

(2 marks)

b) State **FOUR (4)** accounts that are affected in auditing manufacturing equipment.

(4 marks)

c) Identify **FOUR (4)** possible misstatements you may found when performing analytical procedures during auditing manufacturing equipment in Standstill Company.

(8 marks)

d) List **TWO (2)** audit objectives you will achieve when verifying current year acquisitions and disposals of manufacturing equipment.

(2 marks)

(Total: 20 marks)

QUESTION 5

You are auditing the financial statements of Utusan Metro Company and you have been informed by the Chief Financial Officer that the company acquire capital through long term loan financing and equity financing. Your further discussions reveal the following information:

1. The company has provided adequate documentation that verifies that long term loan was properly authorised.
2. The company maintains proper subsidiary records and control over interest payments.
3. The detailed loans outstanding is being reconciled with the general ledger and compared with the loans records by an employee who is not responsible for maintaining the detailed records.
4. Two signatures of properly authorised officers are required for all loan agreement.
5. An independent person will re-compute the interest expense on loans to test the accuracy and propriety of the record keeping.
6. The accounting department of the company has prepared a schedule of loan re-payments and the balance of unpaid portion of loan.
7. The company follows same authorisation procedures whenever there are loans renewal.
8. Responsibility for raising new loans are vested by the board of directors.

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Required

a) Differentiate between loan financing and equity financing.

(4 marks)

b) List **FOUR (4)** examples of types of accounts related to long term loan financing.

(4 marks)

c) List **FOUR (4)** examples of types of accounts related to equity financing.

(4 marks)

d) Based on your findings in the above information (from 1 to 8), classify the internal control related to audit of capital acquisition in the company. You may choose your answer from the following options:

Proper authorisation for the issue of new loans.
Proper documents and records keeping.
Periodic independent verification.

(Note: You may use the table format as presented below to write your answer)

Findings	Classification of Internal Control
1.	
2.	
3.	

(8 marks)

(Total: 20 marks)

End of Paper